

Louisiana Law Review

Volume 62 | Number 2
Winter 2002

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Repository Citation

Matthew James Fantaci, *Digital Dilemma: Could the Digital Millennium Copyright Act Have Inadvertently Exempted Napster and Its Progeny From Liability?*, 62 La. L. Rev. (2002)
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Digital Dilemma: Could the Digital Millennium Copyright Act Have Inadvertently Exempted Napster And Its Progeny From Liability?

Until recently, copyright protection of sound recordings by the Recording Industry Association of America¹ (the "RIAA") has been a fairly easy task. Prior to the advent of digital technology, copyright holders had little to fear from the mass "pirating" of musical recordings because the quality of music recorded on "analog" tapes degrades with each successive copy.² In contrast, when digital copies are made, the copy and each of its successors retains the exact same quality as the original regardless of how many generations of copies are made.³ Even so, the threat of mass pirating was minimal because of the enormous size of the files and painfully slow modem speeds. Prior to the development of compression algorithms and high-speed Internet connections, a five minute song could take several hours to download.⁴

Recently, however, computer programmers have developed compression algorithms which allow data occupying a large amount of space to be significantly "compressed into files that are easily transferred across the Internet and downloaded onto a personal computer."⁵ The preferred compression format is known as "lossy."⁶ Basically, the lossy format eliminates those sounds in the original material which are imperceptible to the human ear, allowing for a

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1. The RIAA represents ninety percent of the music industry and is responsible for the licensing and sale of music. See Recording Industry Association of America, About Us, at <http://www.riaa.com/About-Who.cfm> (last visited Oct. 24, 2001).

2. If an original tape is copied onto another tape and copies are made from each successive tape, the quality of each new copy will have a sound quality which is inferior to the copy from which it was made. See, Benton J. Gaffney, *Copyright Statutes That Regulate Technology: A Comparative Analysis of the Audio Home Recording Act and the Digital Millennium Copyright Act*, 75 Wash. L. Rev. 611 (2000).

3. This is because a digital copy is simply a sequence of ones and zeros which are encoded on to a disk, be it metal (hard drive) or plastic (compact disk), unlike analog recordings which are transferred through the use of a magnetic tape. *Id.* at 616. It is also important to note that you may not get around this problem by copying a compact disc onto a tape and then making a copy of the tape because the second generation copy still uses analog technology.

4. See Wendy M. Pollack, *Tuning In: The Future of Copyright Protection For Online Music in the Digital Millennium*, 68 Fordham L. Rev. 2445, 2450 (2000).

5. *Id.* at 2449 (citing Brenda Sandburg, *The Online Freeway Jam* (last visited July 25, 1999), at <http://www.ipmag.com/monthly/99-june/sandburg.html>).

6. J.D. Tygar, Expert Report 11, available at <http://dl.napster.com/tygar.pdf> (last visited Oct. 24, 2001).

huge reduction in storage requirements.⁷ The most popular, and most feared, lossy format is the MPEG-1 Audio Layer 3, or MP3.⁸ Files compressed into the MP3 format, when combined with a high speed modem, reduce the amount of time it takes to download a song from hours to merely minutes.

Two years ago, a nineteen-year old college student turned the music industry upside down when he created the revolutionary new file sharing program known as Napster. The system, run by Napster, Inc. (Napster), enabled users to swap songs configured in the MP3 format on an unprecedented scale. Limited by only the need of a computer with Internet access, Napster made large scale music piracy as easy as using a telephone. In addition, Napster defined the future of music distribution on an international level by eliminating the need for fancy packaging, shipping, and retail stores, the cost of which is passed on to consumers. Perhaps best of all, online music distribution allows consumers to choose individual songs instead of forcing them to buy an entire album at an exorbitant price in order to obtain a desired song. Unfortunately for the RIAA, the Napster system not only allowed users to bypass the traditional distribution chain, but also paid nothing to the copyright owners of songs downloaded by its users.

As Napster's user base began to grow exponentially, record company executives realized the new kid at the table was not bluffing. Being no stranger to the game, the RIAA decided to ask the courts for a new hand, and in December of 1999 filed suit in the Northern District of California against Napster, Inc. for contributory and vicarious copyright infringement.⁹ In its defense, Napster claimed its activity does not rise to the level of contributory or vicarious infringement. In the alternative, Napster claimed that it was exempt from liability because it qualified for the "safe harbor" for information location tools contained in the Digital Millennium Copyright Act of 1998 (DMCA).¹⁰

Naturally, the publicity surrounding the case piqued the curiosity of Internet users world wide and Napster's membership increased

7. *Id.* at 12. This is different from "lossless" compression which reduces storage space by combining common patterns in the source material. When the material is "reopened" on the user's hard drive, it re-expands to the full size of the original material. *Id.* at 11.

8. See Michael Behar, *It's Playback Time! And MP3 is Only the Beginning*, *Wired*, Aug. 1999, at 122.

9. *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 900 (N.D. Cal. 2000), *aff'd in part and rev'd in part*, 239 F.3d 1004 (9th 2001).

10. *Id.* at 901.

astronomically.¹¹ Worried that the increased numbers of Napster users could cause irreparable damage by the time the suit actually went to trial, the RIAA requested a hearing for preliminary injunction to enjoin the Napster service from operating until trial. On July 26, only one day after the hearing, Judge Patel of the Northern District of California granted the injunction to the plaintiffs.¹² This seemed to sound the death knell for Napster. However, two days later the Ninth Circuit stayed the injunction because it felt that Judge Patel, in her haste, had failed to adequately consider the relevant legal issues.¹³ While most of the plaintiffs saw this merely as a minor setback, Bertelsmann Music Group (BMG) felt it was a harbinger as to how the Ninth Circuit might ultimately rule on appeal after a trial on the merits. BMG reasoned that a loss would subject them to a slow and inevitable death while a win would merely be a temporary solution to a permanent problem. In an impressive and unanticipated move, BMG decided to take advantage of Napster's technology and established user-base by dropping out of the suit and forming an alliance with Napster. In return, Napster agreed to work with BMG to transform Napster into a fee-based music distribution system.

After considering the issue for six months, on February 12, 2001 the Ninth Circuit finally ruled on the preliminary injunction which it had previously stayed.¹⁴ In its decision, the court affirmed the granting of a modified version of the preliminary injunction in favor of the plaintiffs. The court felt that the injunction was warranted but that the original order by Judge Patel was overbroad.¹⁵ Importantly, in issuing its opinion the Ninth Circuit refused to discuss the merits of whether Napster may be able to take advantage of the liability exemptions contained in the DMCA.¹⁶

More recently, on September 24, 2001 Napster settled with songwriters and publishers for \$26 million and agreed to make royalty payments once it started a fee-based distribution system. Napster has not reached a settlement with the record companies.

11. Napster's membership increased from 200,000 to 40,000,000 in a matter of months. See Brief for Plaintiffs/Appellees at 4, *A & M Records, Inc. v. Napster, Inc.*, Nos. 00-16401, 00-16403, 2000 U.S. App. LEXIS 18688 (N.D. Cal. July 28, 2000) [hereinafter Brief for Plaintiffs/Appellees].

12. See *Napster, Inc.*, 114 F. Supp. 2d 896. Note there is a discrepancy between the date the injunction was ordered and the date the case was actually reported because Judge Patel felt it was necessary that the injunction begin immediately.

13. *A & M Records, Inc. v. Napster, Inc.*, Nos. 00-16401, 00-16403, 2000 U.S. App. LEXIS 18688 (9th Cir. Jul. 28, 2000).

14. See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

15. *Id.* at 1027.

16. *Id.* at 1025.

Although the upholding of the injunction and Napster's settlement with the songwriters and publishers are clearly victories for the plaintiffs and their colleagues, they in no way negatively affect the positions taken in this paper. Also, it is important to note that while this paper focuses on whether Napster itself could take advantage of the liability exemptions contained in the DMCA, it is meant to have much broader implications. That is, the analysis contained herein is applicable not only to Napster, but also to any music sharing system which employs the Napster-type technology.

Section I of this paper will give an overview of the Napster technology. Section II will provide an explanation of the traditional theories of copyright infringement in the United States. Section III will set out the requirements which are necessary for a service provider to take advantage of the liability exemption for information location tools contained in the Digital Millennium Copyright Act. Section IV will discuss the liability of Napster under traditional theories of copyright infringement. Section V will examine Napster under the DMCA and make the argument that Napster's coverage under the DMCA is a highly likely possibility. Section VI will present the argument that, although not intended by Congress, a court deciding the issue should follow the wording of the DMCA and leave it up to Congress to close the loophole in the exemptions. This section will also detail some of the problems Congress might face in fashioning a remedy to this situation and suggest some possible solutions. Section VII will offer a brief conclusion.

I. NAPSTER, INC.

Napster, Inc. maintains a website and central server which operates a "virtual community."¹⁷ It is a free service that allows music listeners to "share" their favorite music in MP3 format with millions of other Internet users. To date, Napster receives no revenue from its users, advertising, or any other source.¹⁸ To get started, users may download Napster's MusicShare software free of charge. After supplying a user name and choosing a password, users can use the software to access the Napster computer network.¹⁹ When a user is logged on, the MusicShare software reads the names of all the MP3 files stored in the Napster folder on his computer. Then, these names are added to a directory on the Napster server which contains a list of

17. Napster at <http://www.napster.com> (last visited Oct. 24, 2001).

18. *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 901 (N.D. Cal. 2000).

19. *A & M Records, Inc. v. Napster, Inc.*, No. C 99-05183 MHP, 2000 U.S. Dist. LEXIS 6243 (N.D. Cal. May 12, 2000).

all other MP3 files contained in the hard drives of all other users which are logged on at the same time.²⁰ To locate a song, the user enters the title of the specific song or name of the artist and clicks the "Find It" button on the program.²¹ The Napster program searches its compiled directory of all logged on users and creates a list of the available files. The user then clicks on the file he wishes to download. The program communicates with the host user, *i.e.* the user whose computer contains the desired file, and connects the two computers.²² If the file is available, it is then transferred from the host users hard drive to that of the requesting user via the Internet. It is important to note that, although the transfer would not be possible without the Napster software, the file itself is transferred across the Internet through point-to-point communication between Napster users and is not routed through the Napster server.²³

To say that Napster users "share" MP3 files is somewhat of an understatement. In the traditional sense, when we think of sharing music, we think of copying tapes from our friends. Because the size of our friend pool is necessarily limited, the amount of copying that can take place is small compared to the number of people in the country. However, the copying potential of the Napster technology is limited only by the requirement of a computer with Internet access. When the RIAA filed its action against Napster in December of 1999, it had approximately 200,000 users.²⁴ This number grew to 75 million by the year's end.²⁵ Prior to the injunction issued by the Ninth Circuit, at any given time there were between 900,000 and 1,500,000 files listed in the database and able to be downloaded. At its height, approximately 10,000 music files per second were transferred using Napster.²⁶ Although the studies conducted by experts for the opposing sides differ, it is undisputed that a significant portion, possibly as much as eighty-seven percent, of the files found on the Napster system are copyrighted.²⁷ Of that eighty-seven percent, it is estimated that the plaintiffs own as much as seventy percent of the copyrights.²⁸ Considering that neither the record companies nor the artists receive a penny for any of this activity, it is no wonder they are worried. From the point of view of copyright

20. *Napster*, 2000 U.S. Dist. LEXIS 6243, at *3-6.

21. *Id.*

22. *Id.*

23. *Id.*

24. See Brief for Plaintiffs/Appellees, *supra* note 11, at 4.

25. *Id.*

26. See *A & M Records, Inc. v. Napster, Inc.*, Nos. C 99-5183 MHP and C 00-0074 MHP, 2000 U.S. Dist. LEXIS 20668, at *2 (N.D. Cal. Aug. 10, 2000).

27. *Napster*, 2000 U.S. Dist. LEXIS 20668, at *3.

28. *Id.*

holders, every time someone uses Napster to download music for free, they are stealing their paycheck.

II. TRADITIONAL THEORIES OF COPYRIGHT INFRINGEMENT

A. *Brief History of Copyright Law in America*

The founders of our nation found copyright protection so essential to the success of the nation that they provided for it in the Constitution.²⁹ Article I, Section 8, clause 8 gives Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the Exclusive Right to their respective Writings and Discoveries.” The goal sought to be achieved by providing authors and other artists with a limited monopoly over their works is “to stimulate artistic creativity for the general public good.”³⁰ By ensuring that artists will be compensated for their efforts, copyright law generates an incentive to create works from which the public will ultimately benefit.

In this country, musical compositions have been protected by copyright since 1831.³¹ Sound recordings, *i.e.*, the reproduction of sounds as opposed to musical notation, have been protected by copyright since 1972.³² Currently, Title 17 of the United States Code governs all copyright law. Unauthorized use of copyrighted works constitutes an infringement entitling the owner of the copyright to monetary or injunctive relief.³³ Three basic theories of copyright infringement exist: direct infringement, contributory infringement, and vicarious liability.³⁴

B. *Direct Infringement*

The statutory framework of copyright law is set out in Title 17 of the United States Code (the “Copyright Act”).³⁵ Section 106 of Title 17 gives copyright holders the exclusive right to reproduce, distribute, perform publicly, display, and prepare derivative works of

29. U.S. Const. art. I, § 8, cl. 8.

30. See Benton J. Gaffney, *Copyright Statutes That Regulate Technology: A Comparative Analysis of the Audio Home Recording Act and The Digital Millennium Copyright Act*, 75 Wash. L. Rev. 611 (2000) (quoting *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, 95 S. Ct. 2040, 2044 (1975)).

31. See *United States v. Moghadam*, 175 F.3d 1269, 1271 (11th Cir. 1999).

32. *Id.*

33. See Pollack, *supra* note 4.

34. *Id.*

35. 17 U.S.C.A. § 101-1332 (West 1996).

copyrighted material.³⁶ Direct infringement occurs when a party exercises one of these exclusive rights without permission from the copyright owner.³⁷ To prevail on a direct infringement claim, the copyright owner must prove (1) ownership of a valid copyright and (2) that a copy of the protected work has been made "beyond the scope of [the] license."³⁸ Under the Copyright Act, intent or knowledge is not an element of direct infringement.³⁹ Thus, the direct infringer is liable "whether the person violating the rights did so intentionally or by accident."⁴⁰

In *MAI Systems Co. v. Peak Computer, Inc.*,⁴¹ the Ninth Circuit Court of Appeals held that downloading material onto a computer's Random Access Memory, or RAM, by an individual user constitutes the creation of a copy under the Copyright Act. If a user was not authorized by a copyright owner to make a copy of the downloaded material, his actions constitute a direct infringement.⁴² Although this ruling was a major victory for copyright owners, its practical application is limited. In *MAI Systems* direct evidence existed of the user copying protected material; however, this kind of evidence is extremely hard to obtain in the cyberworld because the responsible parties are often impossible to locate.⁴³ Furthermore, direct infringers on the Internet rarely have deep enough pockets to compensate

36. 17 U.S.C.A. § 106 (West Supp. 2001) provides, in pertinent part:
Subject to sections 107 through 121, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
(1) to reproduce the copyrighted work in copies or phonorecords;

(3) to distribute copies . . . to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of . . . , musical, . . . works, . . . to perform the copyrighted work publicly;

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

37. 17 U.S.C.A. § 501 (West 1996).

38. See *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir. 1993).

39. 17 U.S.C.A. § 501.

40. See Mark Radcliff, *Digital Millennium Copyright Act Forging the Copyright Framework for the Internet: First Steps*, 557 PLI/Pat 365, 370 (1999).

41. 991 F.2d 511, 519 (9th Cir. 1993). See also, *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 260 (5th Cir. 1988) ("the act of loading a program from a medium of storage into a computer's memory creates a copy of the program").

42. See 17 U.S.C.A. § 501.

43. See Jennifer E. Markiewicz, *Seeking Shelter From the MP3 Storm: How Far Does the Digital Millennium Copyright Act Online Service Provider Liability Limitation Reach?*, 7 Comm. L. Conspectus 423 (1999).

copyright owners for the damage they may cause; their motivation for the infringement is often not for monetary gain but an expression of the widely held belief that everything on the Internet ought to be free.⁴⁴ Thus, third-party liability theories are a much more viable alternative in the Internet context.

C. Contributory Infringement

The Copyright Act does not expressly provide for third-party liability of copyright infringement committed by another.⁴⁵ The theory of contributory copyright liability "originates in tort law and stems from the notion that one who directly contributes to another's infringement should be held accountable."⁴⁶ Thus, it has long been accepted that "[t]he absence of such express language . . . does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity."⁴⁷ To prevail on a contributory infringement (or vicarious liability) claim, a plaintiff must first prove direct infringement by a third party.⁴⁸ Once shown, contributory liability will be found where "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another."⁴⁹

In *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.* the Second Circuit Court of Appeals explained that the standard of knowledge is objective: "to have had knowledge, or reason to know" of the infringing activities.⁵⁰ That is, would a reasonable person under similar circumstances have concluded that the infringing activity was occurring? Although a minority of circuits employ a more rigorous standard of "actual" knowledge, the Ninth Circuit has repeatedly chosen to follow the "constructive" knowledge standard set out in *Gershwin*.⁵¹

44. See John Gibeaut, *Facing The Music*, A.B.A. J., Oct. 2000, at 37.

45. See *Sony Co. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 434, 104 S. Ct. 774, 785 (1984). In contrast, the Patent Act expressly provides for liability of certain individuals labeled "contributory" infringers. See 35 U.S.C.A. § 271(c) (West 2000).

46. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

47. *Sony*, 464 U.S. at 435, 104 S. Ct. at 785.

48. See *A & M Records, Inc. v. Napster, Inc.*, Nos. C 99-5183 MHP and C 00-0074 MHP, 2000 U.S. Dist. LEXIS 20668, at *2 (N.D. Cal. Aug. 10, 2000) (citing *Sony*, 464 U.S. at 434, 104 S. Ct. at 785).

49. *Gershwin Publ'n Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

50. *Id.* at 1162 (citing *Screen Gems-Columbia Music, Inc. v. Mark Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966)).

51. See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

In addition to meeting the requisite level of knowledge, it must be shown that the defendant "cause[d], induce[d], or materially contribute[d] to the infringing conduct of another."⁵² Although it has been said that the participation must be "substantial," such a statement is misleading.⁵³ In *Fonovisa, Inc v. Cherry Auction, Inc.*,⁵⁴ the copyright owners of musical recordings sued the operators of a swap meet where independent vendors sold counterfeit recordings. The Ninth Circuit Court of Appeals found that substantial does not mean that a defendant must "go so far as expressly promot[ing] or encourag[ing] the sale of counterfeit products" to satisfy the standard of participation.⁵⁵ It stated that simply "providing the site and facilities for known infringing activity" is sufficient to meet the standard.⁵⁶ Thus, the judicial interpretation of the "substantial" participation standard has been quite expansive, and courts are more likely to side with the copyright owner on this issue in most situations.⁵⁷

D. Vicarious Liability

The concept of vicarious copyright liability was developed as an extension of the agency principles of respondeat superior.⁵⁸ This theory traditionally concerns only the liability of an employer for the acts of his employee. However, in the context of copyright infringement the test has a broader reach so that "even in the absence of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities."⁵⁹ Thus, to succeed on a claim of vicarious liability a plaintiff must prove that the defendant (1) had the right and ability to control the infringer's actions, and (2) derived a direct financial benefit from the infringing activity.⁶⁰ It is important to distinguish the difference between

52. *Gershwin*, 443 F.2d at 1162.

53. See Rebecca Morris, *When is a CD Factory Not Like a Dance Hall?: The Difficulty of Establishing Third-Party Liability for Infringing Digital Music Samples*, 18 Cardozo Arts & Ent. L.J. 257, 296 (2000).

54. 76 F.3d 259 (9th Cir. 1996).

55. See Morris, *supra* note 53, at 297 (citing *Fonovisa*, 76 F.3d at 264).

56. *Id.*

57. See *id.*

58. *Fonovisa*, 76 F.3d at 261-62.

59. *Gershwin Publ'n Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (citing *Shapiro, Bernstein & Co., Inc. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963)).

60. See Paul D. Amrozowicz, *When Law, Science and Technology Worlds Collide: Copyright Issues on the Internet*, 81 J. Pat. & Trademark Off. Soc'y 81,

vicarious liability and contributory infringement. Vicarious liability turns upon the relationship between the direct infringer and the defendant, as opposed to the contributory copyright infringement theory which focuses on the defendant's knowledge of the infringing activity.⁶¹

The first determination to be made in the context of traditional vicarious copyright infringement is whether the defendant had the "right and ability" to control the infringing activity. Generally, liability will be found where a defendant has the "legal" or "potential" power to control the activity.⁶² The "legal" control standard will be met if the defendant is merely "in a position to police the infringement."⁶³ In discussing the vicarious liability of the swap meet operators in *Fonovisa*, the court noted that the operators provided booth space, parking, conducted advertising, and reserved the right to exclude any vendor for any reason at any time.⁶⁴ In light of these circumstances, the court held that the defendant's "ability to police its vendors under [its] . . . broad contract with its vendors—was sufficient to satisfy the control requirement" of the vicarious liability test.⁶⁵

The second element of traditional vicarious copyright infringement is that the defendant derive a direct financial benefit from the infringing activity. In *Fonovisa*, the profits made by the swap meet operators were not necessarily directly related to the sale of infringing material because the vendors all paid a set fee for booth

94 (1999).

61. *Id.* at 94.

62. See Charles S. Wright, *Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement Into the Digital Millennium Copyright Act of 1998*, 75 Wash. L. Rev. 1005, 1016 (2000). However, a very small percentage of courts adhere to the actual control standard which requires a "continuing connection between the two [parties] in regard to the infringing activity" before the liability can be found. *Id.* at 1013.

63. *Id.* at 1016 (citing *Gershwin*, 443 F.2d at 1163).

64. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996).

65. *Id.* at 263. See also *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963) (licensing agreement with department store requiring concessionaires to "abide by, observe and obey all regulations" and which gave the department store "unreviewable discretion" to discharge concessionaires employees was enough to satisfy the control requirement); *Gershwin Publ'n Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159 (2d Cir. 1971) (although defendant did not have contractual ability to control direct infringers, they were vicariously liable because they were in a position to police the infringers); *Polygram Int'l Publ'n, Inc. v. Nevada/TIG, Inc.* 855 F. Supp. 1314 (D. Mass. 1994) (control requirement satisfied because defendant could police infringers and promoted show in which the infringers participated).

space.⁶⁶ Because many vendors did not engage in selling infringing material, it was impossible to tell if the profits of the operator were attributable to the sale of infringing or noninfringing material.⁶⁷ The court, however, stated that the proper test for determining direct financial benefit is whether the presence of sales of infringing material is a "draw" for customers,⁶⁸ *i.e.*, whether it makes the operation more attractive to customers and, in turn, more beneficial to the operators.⁶⁹

Courts have also found that the financial benefit element may still be satisfied even if the defendant receives no financial gain from his operation. In *Broadcast Music, Inc. v. Hobi, Inc.*,⁷⁰ the defendant owned a bar which played copyrighted music via a disc jockey without paying a fee to the copyright owners.⁷¹ The bar never turned a profit and the owner never received any money from its operation as a bar. In finding the defendant vicariously liable, the court stated that defendant satisfied the financial interest requirement of the test because the "bar . . . [was] operated with the goal of making a profit."⁷² Thus, at least in some circuits, to satisfy the financial benefit element a defendant need not actually receive a financial gain but must merely try to profit from his operation.

III. THE DMCA

The Digital Millennium Copyright Act (DMCA)⁷³ was passed in 1998 as a compromise between copyright owners and online industry representatives.⁷⁴ Passed with the intent of codifying a technologically-sound set of guidelines for liability in the realm of digital communications over the Internet,⁷⁵ it has generated a tremendous amount of discussion during the short time it has been in

66. 76 F.3d at 263.

67. *See id.*

68. *Id.*

69. *See Morris, supra* note 53, at 293. *See also* Major Bob Music v. Stubbs, 851 F. Supp. 475 (S.D. Ga. 1994) (bar owner received direct financial benefit from infringing songs played by musician even though the performance was free because performer induced customers to patronize the bar).

70. Nos. 92-228-B, 92-657-B, 1993 WL 404152 (M.D. La. June 24, 1993).

71. *Broadcast Music*, 1993 WL 404152, at *1-2.

72. *Broadcast Music*, 1993 WL 404152, *3.

73. Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860 (codified as amended in scattered sections of 17 U.S.C.).

74. *See* David Balaban, *Music in the Digital Millennium: The Effects of the Digital Millennium Copyright Act of 1998*, 7 UCLA Ent. L. Rev. 311, 312 (2000).

75. *See* Jennifer Markiewicz, *Seeking Shelter From the MP3 Storm: How Far Does the Digital Millennium Copyright Act Online Service Provider Liability Limitation Reach?*, 7 Comm L. Conspectus 423, 433 (1999).

existence. The DMCA is a document as complex as the technology which it addresses; it consists of five titles and covers everything from liability of online service providers,⁷⁶ to protection of copyrights for boat hull designs.⁷⁷ Of these five titles, this paper only address' certain provisions in Title II dealing with limitations of infringement for online service providers.

Title II of the DMCA, now codified in Section 512 of Title 17, limits copyright infringement liability for service providers on the Internet. These "safe harbors" were created by Congress in order to promote online commerce by limiting the risk of liability for certain online conduct.⁷⁸ They ensure "that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will expand."⁷⁹ The safe harbors limit copyright liability for online service providers when they are engaged in (1) transitory communications, (2) system caching, (3) storage of information on systems at the direction of users, and (4) information location tools.⁸⁰ Only the exemption for information location tools is pertinent to the discussion in this paper.⁸¹ A defendant who, under traditional copyright liability theories, would otherwise be guilty but qualifies for one of the safe harbor provisions cannot be liable for monetary relief for copyright infringement,⁸² and the scope of injunctive relief which may be awarded by a judge is severely limited.⁸³ However, in order to qualify for the safe harbors, several requirements must be met. The first inquiry is determining whether a defendant can be considered a "service provider."

76. 17 U.S.C.A. § 512 (West 2000).

77. 17 U.S.C.A. § 1301(2) (West 2000).

78. See Linda Pickering & Mauricio F. Paez, *Music on the Internet: How to Minimize Liability Risks While Benefitting From the Use of Music on the Internet*, 55 Bus. Law. 409, 425 (1999).

79. Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 12A.04 (1999) [hereinafter Nimmer].

80. 17 U.S.C.A. § 512(a)-(d). It should be noted that Section 512(l) specifically provides that a failure to qualify for one of these safe harbors has no affect on any other existing defenses the defendant may have. 17 U.S.C.A. § 512(l).

81. The safe harbors for transitory digital network communications, catching, and user storage could not, under any stretch of the imagination, be applied to the technology at issue. Since no material is actually routed through the technology discussed here, the exception for such conduct cannot apply. The concept of system catching is especially hard to understand. Its inclusion in the discussion would create no benefit to the reader and simply cause confusion. Nor is the user storage exception applicable because (1) no infringing material is stored on these systems and (2) anything that is stored is not at the direction of the user but takes place automatically.

82. 17 U.S.C.A. § 512.

83. 17 U.S.C.A. § 512(j).

A. Who are Service Providers Under the DMCA?

The safe harbor provisions of the DMCA are only available to those who qualify as "service providers." Title II provides two definitions for service providers in what is now Section 512(k) of the Copyright Act. The Act defines "service providers" for the information location tools exception as those who provide "online services or network access, or the operator of facilities therefor,"⁸⁴ and includes any "entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material."⁸⁵

Like much of the legislation passed in an effort to deal with new technology which is not fully understood, the definitions of "service providers" are quite ambiguous, and courts have yet to interpret the definition. Furthermore, when one considers what makes up the Internet and how it works, the ambiguity grows.

The Internet consists of an incalculable set of interconnected networks, all of which rely to some extent on one another.⁸⁶ The Internet, at its most basic level, is analogous to a traditional telephone service. When a call is made from Louisiana to California, the caller is not linked directly to the receiving phone by one long, uninterrupted line. Rather, the call is routed through the local phone service provider, then directed to a regional long distance provider who then routes the call to the local provider in California, and then the local provider directs it to the intended receiver. This process is imperceptible to the caller, giving the impression of a direct connection. The Internet works in much the same way, only there are tens of thousands networks which each perform a separate service and are linked together to form a seemingly uniform process.⁸⁷ So, do all entities who play a part in this process qualify as "service providers?" There can be no doubt that they are providing an "online service." Or, will such an expansive definition effectively exclude all liability in the online context and, thus, render the DMCA meaningless?

Regardless of how the courts ultimately interpret the term "service provider," it is important that they recognize the dangers of a view that is either too restrictive or too broad. A narrow interpretation would be underinclusive. Not only could it subject certain services to liability and actually hinder online commerce, but such a view would also not be able to adapt to new, unknown technology. Without the ability to

84. 17 U.S.C.A. § 512(k)(1)(B).

85. 17 U.S.C.A. § 512(k)(1)(A).

86. See Balaban, *supra* note 74, at 316.

87. *Id.*

adapt to change, Congress would have to pass new legislation to deal with new problems. This is troublesome because often when Congress places restrictions on access to certain information, they inadvertently reduce the public's access to information which it is legally entitled to use, thus, raising First Amendment issues. On the other hand, if the interpretation is overinclusive, the safe harbor provisions would effectively swallow the DMCA and strip copyright owners of their rights in the online context.

B. Additional Requirements

If a defendant qualifies as a service provider as it is defined in Section 512(k), he still cannot take advantage of any of the safe harbor provisions until three additional requirements are fulfilled. First, the service provider must adopt and implement a policy of terminating the accounts of users who are "repeat infringers."⁸⁸ Second, the service provider must inform its users of the existence of this policy.⁸⁹ Lastly, the provider must accommodate and not interfere with "standard technical measures"⁹⁰ which are "used by copyright owners to identify or protect copyrighted works."⁹¹ Once these requirements are met, the service provider can look to see if its conduct is one of the types covered in the "safe harbor" provisions.

C. The Relevant "Safe Harbor" Provision

1. Information Location Tools

Section 512(d) exempts from copyright infringement liability service providers who "by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link."⁹² The following conditions must be met in order for this exemption to apply: (1) the provider does not have actual knowledge of the infringing activity nor awareness of facts from which infringing activity is apparent; (2) upon receiving such knowledge removes or disables access to the infringing material (the "notice and takedown requirement"); and (3) in cases where the provider has the right and ability to control the activity it does not receive a direct financial

88. 17 U.S.C.A. § 512(i)(1)(A).

89. *Id.*

90. 17 U.S.C.A. § 512(i)(1)(B).

91. 17 U.S.C.A. § 512(i)(2).

92. 17 U.S.C.A. § 512(d).

benefit from the infringing activity.⁹³

IV. NAPSTER'S LIABILITY UNDER TRADITIONAL THEORIES

A. Direct Infringement

The plaintiffs in the case did not make a claim for direct infringement against Napster because doing so would have been an exercise in futility. Although the downloading of a copyrighted song by Napster's users without permission is undoubtedly a direct infringement,⁹⁴ it is Napster's users and not the company who engaged in this activity. Furthermore, because the actual infringing activity is done through point-to-point communication, the illegal material never even passes through Napster's system. However, the direct infringements of Napster's users will be relevant to its potential secondary liability.

B. Contributory Infringement

As a threshold matter, Napster's users must be engaged in direct copyright infringement before a determination of secondary liability can be made.⁹⁵ Napster's users engage in direct copyright infringement when they download a song without permission from the copyright owner.⁹⁶

The next question is whether Napster possessed the requisite knowledge of the infringing activity of its users under the *Gershwin*⁹⁷ "constructive" knowledge standard. The evidence shows that well over half of the files downloaded by Napster users are copyrighted, Napster never obtained a license permitting users to copy any of these works,⁹⁸ and Napster knew enough about intellectual property law to sue a rock band that copied its logo.⁹⁹ Considering the enormous number of infringing files contained in the Napster directory and their considerable knowledge of copyright law, it would be absurd to suggest that Napster did not at least have constructive knowledge of the

93. 17 U.S.C.A. § 512(d)(1)(A)-(d)(2).

94. See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir. 1993).

95. See *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 911 (N.D. Cal. 2000).

96. See *MAI Systems Corp.*, 991 F.2d at 517.

97. *Gershwin Pub'l Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

98. *Napster*, 114 F. Supp. 2d at 903.

99. Irony, isn't it? Napster sued to enjoin the band The Offspring from using its logo. See *id.* at 919.

infringing activities of its users. Such an idea would require that Napster employees had never used their own system. Furthermore, internal documents of Napster executives stating that Napster users "are exchanging in pirated music" and that Napster is "not just making pirated music available but also pushing demand" suggest that Napster possessed the requisite knowledge of the infringing activity.¹⁰⁰

The next determination to be made is whether Napster "induce[d], cause[d], or materially contribute[d]" to the infringing conduct of its users. The Napster file sharing system is analogous to the swap meet in *Fonovisa* except that it takes place in cyberspace and is conducted on a much larger scale. And, just as in *Fonovisa*, they provide the "site and facilities for known infringing activity."¹⁰¹ Indeed, it would have been impossible for the illegal activity to have "take[n] place in the massive quantities alleged"¹⁰² without the services of Napster. Therefore, Napster's conduct appears sufficient to satisfy the "material contribution" element of contributory infringement.

C. Vicarious Liability

The first question in determining vicarious copyright liability is whether the defendant has the "right and ability" to control the infringing activity. Like the swap meet operator in *Fonovisa*, Napster has the ability to control and police its users. Before a user may log on to the Napster network, they must agree to its terms which include the right to refuse service and terminate accounts at its discretion if Napster believes the user is violating copyright law or for any other reason, with or without cause.¹⁰³ It is clear that Napster does, through its contractual agreement with its users, have the ability to police the activity of its users, thus satisfying the "legal" control standard of *Fonovisa*.

The second prong of the vicarious liability test requires that the defendant have a "direct financial interest"¹⁰⁴ in the infringing activity. In *Fonovisa*, the court stated that the proper test in determining the directness of the financial benefit is whether the ability to find infringing material is a "draw" for customers. There can be no doubt that the idea of obtaining music, for which customers would otherwise have to pay, for free, draws users to the site. Furthermore, an early

100. *Id.* at 903

101. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

102. *Id.* at 264.

103. See Napster, Copyright Policy, at <http://www.napster.com/terms> (last visited July 5, 1999).

104. *Gershwin Publ'n Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (citing *Shapiro, Bernstein & Co., Inc. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963)).

version of Napster advertised the ease with which users could find popular music without “wading through page after page of unknown artists.”¹⁰⁵ These “popular” songs are precisely the one’s whose copyrights are owned by the record companies. Thus, if users go to the site to obtain these songs, they are “drawn” there because of the availability of infringing material.

Although the “directness” of the benefit is substantial enough to satisfy the standard, the harder question is whether that benefit was financial in nature. It is true that an entity need not generate a profit in order to be deemed to have received a financial benefit from infringing activity,¹⁰⁶ but this line of cases has dealt with establishments which, although not making a profit, charge money for their services.¹⁰⁷ Napster, on the other hand, charges no fees and has no form of revenue at all. However, the evidence does show that Napster plans to “monetize” its business in the future through resources such as targeted e-mail, advertising, direct marketing of CD’s, user fees, and other profit generating models.¹⁰⁸ If these facts are read in conjunction with the statement by the *Hobi* court that the enterprise need only be “operated with the goal of making a profit,”¹⁰⁹ the conduct of Napster should be sufficient to establish a direct financial benefit.

V. DOES NAPSTER QUALIFY FOR EXEMPTION UNDER THE DMCA?

As we have seen from the discussion above, Napster’s chance of escaping liability under the traditional theories of copyright infringement is negligible at best. However, Napster may be able to avoid liability if it qualifies for one of the safe harbor¹¹⁰ provisions of the DMCA. As was previously stated, the only safe harbor provision which Napster could possibly take advantage of is that for information location tools.¹¹¹ Before the specifics of the this exemption may be examined, it must be determined whether Napster meets the threshold requirements applicable to all of the safe harbors. The first of these requirements, and the most vague, is that Napster qualify as a “service provider” under the Act.

105. See *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 904 (N.D. Cal. 2000).

106. See *Major Bob Music v. Stubbs*, 851 F. Supp. 475, 480 (S.D. Ga. 1994).

107. *Id.*; see also *Broadcast Music, Inc. v. Hobi, Inc.*, Nos. 92-228-B, 92-657-B, 1993 WL 404152 (M.D. La. June 24, 1993).

108. *Napster*, 114 F. Supp. 2d at 902.

109. *Broadcast Music, Inc. v. Hobi, Inc.*, Nos. 92-228-B, 92-657-B, 1993 WL 404152, at 3 (M.D. La. June 24, 1993).

110. 17 U.S.C.A. § 512 (West 2001).

111. 17 U.S.C.A. § 512(d).

A. *Is Napster a "service provider?"*

Section 512(k) provides two definitions for "service providers." In order to ascertain what Congress may have intended to be included in these definitions, they must be examined in detail. Section 512(k) provides:

(1)(A) As used in subsection (a), the term "service provider" means an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received.

(B) As used in this subsection, other than subsection (a), the term service provider means a provider of online services or network access, or the operator of facilities therefor, and includes any entity described in subparagraph (A).

It is important to note that the Act offers different definitions of the term "service provider" depending on which safe harbor provision is at issue. The exemption for information location tools falls under the definition provided in 512(k)(1)(B) which, in addition to the definition provided, specifically includes entities covered in 512(k)(1)(A). Thus, Napster need only fit into one of the definitions in order to be covered.

Although courts employ many methods when interpreting new and ambiguous statutes, the first place they should look (and often the last place they do look, if at all) is to the words of the statute itself. That is, using practical, common understanding of the words, what do they mean? Using this approach, the first consideration is whether Napster is covered by the main definition applicable to the safe harbor at issue. Section 512(k)(1)(B) defines service providers as those who provide "online services or network access."¹¹² In today's Internet driven society these terms have fairly definite meanings. Online service providers are typically thought of as those which enable user's to connect to the Internet or "browsers." Everyone who has Internet access uses a "browser" to connect their computer to the network. Some of the more popular of these services are America Online,¹¹³ Microsoft Internet Explorer,¹¹⁴ and Prodigy.¹¹⁵ Thus, the entities which fall under this definition of "service provider" are those providing Internet access and the ancillary services they offer such as e-mail, chat

112. 17 U.S.C.A. § 512(k)(1)(B).

113. See America Online, at <http://www.aol.com> (last visited Oct. 24, 2001).

114. See Microsoft, at <http://www.microsoft.com> (last updated Mar. 24, 2002).

115. See Prodigy, at <http://myhome.prodigy.net> (last visited Oct. 24, 2001).

rooms, and web-page hosting services.¹¹⁶ If this definition is accepted, then Napster cannot be deemed a “service provider” under the first part of Section 512(k)(1)(B). Napster does not offer “access” to the Internet. In fact, it is a necessary requirement that a user already have access to the Internet to use Napster. Rather, Napster assists users who already have access to the Internet in locating the information they desire.

The inquiry must next turn to the definition of “service provider” set out in Section 512(k)(1)(A) which is also included in the definition of “service provider” under Section 512(k)(1)(B). In order to qualify as a “service provider” under Section 512(k)(1)(A) an entity must: (1) provide connections for digital online communications, (2) between points specified by the user, (3) the material must be chosen by the user, and (4) the material must not be altered during the transmission. Utilizing a practical approach, Napster would be able to meet these requirements without difficulty. Users of the Napster system choose the material they wish to download by searching the Napster directory. After completing the search, the user will find himself with a list of up to 100 “host” users who are also logged on and whose computers contain the desired song. The user then chooses which host user he wants to retrieve the song from, thus satisfying the requirement that the communication be between “points specified by [the] user.”¹¹⁷ That is, the user specifies that the song be transmitted from point A (host user’s computer) to point B (his computer). Then the Napster system provides the connection between the two users and the file is transferred over the Internet. Also, at no time does Napster alter the content of the material that has been requested by the user. It seems, therefore, that Napster should qualify as a “service provider” under Section 512(k)(1)(A) according to the plain wording of the statute.

Rarely, however, is the answer so clear, and a somewhat plausible argument can be made to the contrary. After all, Congress did provide two separate definitions for the term “service provider” to be used depending on which safe harbor is at issue. So, in analyzing the statute it is necessary to ask, why?

The definition stated in 512(k)(1)(A) is the definition to be used with the safe harbor for transitory digital network communications.¹¹⁸ This section states that a service provider will not be liable for infringement “by reason of the provider’s transmitting, routing, or providing connections for, material *through* a system or network . . .

116. See H.R. Rep. No. 105-551, pt. 2 (1998).

117. 17 U.S.C.A. § 512(k)(1)(A) (West Supp. 2001).

118. 17 U.S.C.A. § 512(a).

operated by . . . the service provider.”¹¹⁹ Thus, this exemption is intended to protect service providers from liability when third parties route infringing material through its system.¹²⁰ It could be argued then, that in providing a separate definition for that specific safe harbor Congress intended that the definition be read in conjunction with the nature of the exemption. That is, that Congress intended that the definition under Section 512(k)(1)(A) be read to only include those entities which transmit infringing material through their system at the request of third parties. If this interpretation is accepted, then Napster cannot qualify as a “service provider” under Section 512(k)(1)(A) because Napster is not such an entity. The infringing material is transmitted over the Internet through point to point communication between Napster users and not through the Napster system.¹²¹

Such an interpretation is troubling. If Congress intended that the definition of “service provider” under Section 512(k)(1)(A) was to be limited to entities through which infringing material passed, why did they not use the same language used in the exemption dealing with such entities? The liability limitation for transitory digital network communications exempts entities from infringement “by reason of the provider’s transmitting, routing, or providing connections for, material *through* a system or network . . . operated by . . . the service provider”¹²² However, the definition of “service provider” given for that exemption makes no mention of material passing through the provider’s network as a qualification for coverage. Why did Congress not define “service provider” as “the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, [*through a system or network operated by the service provider*]”? The thought must have crossed their minds. It is the argument of this paper that Congress intentionally did not add such a limitation because to do so would undermine the very purpose of the exemption for information location tools.

Remember, the safe harbor at issue, Section 512(d), is an exemption from liability for *information location tools*. The legislative history states that this exemption was meant to cover search engines

119. *Id.* (emphasis added).

120. See Markiewicz, *supra* note 43, at 436. Napster cannot take advantage of this “safe harbor” because nothing is routed through its system, *i.e.*, the infringing material is transmitted over the Internet between the specified users and not over the Napster network.

121. A & M Records, Inc. v. Napster, Inc., No. C 99-05183 MHP, 2000 U.S. Dist. LEXIS 6243, at *5 (N.D. Cal. May 12, 2000).

122. 17 U.S.C.A. § 512(a) (West Supp. 2001) (emphasis added).

and directories of online material.¹²³ The need for this exemption is undeniable. Without search engines, the practicality of the Internet would be reduced to nearly zero. Thus, Congress set out to protect search engines such as Yahoo.¹²⁴ However, search engines do not route material through their networks, they merely direct a user to a site containing the desired material. This is done by way of a "link" which the user clicks on and a connection is established between the host website and the user over the Internet. The Napster system performs a function identical to that of Yahoo or any other search engine. If the courts, in an effort to exclude Napster from coverage, were to accept the interpretation that the definition of "service provider" under Section 512(k)(1)(A) only covers entities that pass material through its system they would inadvertently alienate the exact entities which were the basis for the exemption.

Nor is the problem solved by looking to the definition provided under Section 512(k)(1)(B). If it is true that search engines are meant to be covered as "service providers" and even if it could be said that Yahoo fit within this definition (a stretch, indeed), then whichever definition is used must include not only the Yahoos but also the Napsters. That is, because the systems perform the same function they must either both be included or both be excluded. For a court to do otherwise would amount to judicial legislation.

The exclusion of both is an undesirable result. A better position would be to include as "service providers" all entities which meet the "practical" definition of Section 512(K)(1)(B) stated above and leave it up to Congress to remedy the problem. Such a decision may be harmful to certain groups in the short term, but that harm is greatly outweighed by the potential for harm to the Internet as a whole if a contrary interpretation is adopted. Simply, if search engines are afforded no protection from liability they will be the primary target for our litigious society because they have deep pockets. The amount these entities would have to spend in legal bills would create an incentive not to engage in the search engine business, and without search engines the Internet would be severely crippled. Congress recognized this and attempted to fix the problem, but as is often the case, the legislation needs fine tuning. So, the fundamental question is one of value: do we want the whole to suffer for the benefit of a few, or vice versa? The answer is obvious. Thus, Napster should be considered a "service provider" as currently defined by the DMCA.

123. See H.R. Rep. No. 105-551, pt. 2 (1998).

124. See Yahoo!, at <http://www.yahoo.com> (last visited Oct. 24, 2001).

B. Additional Threshold Requirements

After being deemed a service provider under the Act, Napster must meet two additional prerequisites applicable to all safe harbors in order to be considered for an exemption. The first is that the service provider must adopt and implement a policy of terminating accounts of repeat infringers and must inform its users of the policy.¹²⁵ As a condition of having an account with Napster, all users must agree to their "copyright policy."¹²⁶ This policy requires that users comply with all copyright laws and warns that "Napster will terminate the accounts of users who are repeat infringers" and "reserves the right to terminate the account of any user permanently upon any single infringement."¹²⁷ Napster has enforced this policy by terminating the service of over 700,000 users to date upon notification of their infringing activity.¹²⁸

The second requirement is that the "service provider" must accommodate and not interfere with "standard technical measures"¹²⁹ which are "used by copyright owners to identify or protect copyrighted works"¹³⁰ Because the MP3 format cannot, by its nature, carry copyright protection or identification technology and Napster carries only MP3 files, noncompliance with this requirement is not possible. Thus, Napster satisfies the additional requirements. The inquiry turns next to the specific "safe harbor" at issue.

C. Section 512(d): Information Location Tools

Section 512(d) service providers who "link" users to online locations containing infringing material are exempt from liability if certain conditions are met. The first of these is that the service provider must not have "actual knowledge that the material . . . is infringing" nor "aware[ness] of facts . . . from which infringing activity is apparent."¹³¹ Furthermore, upon receiving such knowledge the service provider must remove or disable access to the infringing material.¹³² This is the notice and takedown component. It is necessary to note that actual knowledge

125. 17 U.S.C.A. § 512(i)(1)(A).

126. See Napster, Copyright Policy, at <http://www.napster.com/terms> (last visited Oct. 24, 2001).

127. *Id.*

128. See Defendant/Appellant Napster, Inc.'s Opening Brief, at 56, A & M Records, Inc. v. Napster, Inc., Nos. 00-16401, 00-16403, 2000 U.S. App. LEXIS 18688 (N.D. Cal. July 28, 2000) [hereinafter Defendant/Appellant Napster, Inc.'s Opening Brief].

129. 17 U.S.C.A. § 512(i)(1)(B).

130. 17 U.S.C.A. § 512(i)(2).

131. 17 U.S.C.A. § 512(d)(1)(A)-(B).

132. 17 U.S.C.A. § 512(d)(1)(C).

of infringing activity by a service provider, without more, is not enough for disqualification from the exemption. The service provider must have actual knowledge *and* fail to disable access to the infringing material upon gaining actual knowledge.

Much discussion concerning the information tools exception has centered around vagueness of the knowledge component.¹³³ Specifically, how much knowledge constitutes “knowledge of an infringing site” which would require the provider to remove or disable access to the material or else lose eligibility for the exemption? The Congressional analysis of the knowledge component suggests a “red flag” test be adopted,¹³⁴ whereby, “if the service provider becomes aware of a “red flag” from which infringing activity is apparent,” he cannot take advantage of the liability exemption unless he complies with the notice and takedown requirement.¹³⁵ Is a “general” actual knowledge that somewhere on the site there are links to infringing material enough to meet this “red flag” standard? If so, Napster would not qualify for the exemption. Due to Napster’s complete lack of copyright ownership and licenses they are certainly aware that its directory contains links to some infringing material.

The answer can be found by looking to Section 512(m)(1) which states that service providers are under no obligation to monitor their service or affirmatively seek facts indicating infringing activity.¹³⁶ Since the knowledge component is qualified by the takedown requirement, a “general” actual knowledge cannot be considered a “red flag.” If it was, then Napster would be required to monitor its site in order to comply with the takedown requirement, something it is statutorily not required to do. Therefore, to comply with the knowledge and take down requirements of Section 512(d), Napster must only disable access to those *particular* sites which it *actually* knows contain infringing material. Napster has complied with this requirement. To date it has terminated the accounts of over 700,000 users upon notification that those specific sites contain infringing material.¹³⁷

The final requirement that must be met in order to qualify for the Section 512(d) exemption is that the service provider must not “receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control

133. See Markiewicz, *supra* note 43, at 438.

134. H.R. Rep. No. 105-551, pt. 2 (1998).

135. *Id.* The report gives only examples of obvious red flags such as, “pirate.com” or “bootleg.com.”

136. 17 U.S.C.A. § 512(m)(1).

137. See Defendant/Appellant Napster, Inc.’s Opening Brief, *supra* note 128, at 56.

such activity.”¹³⁸ This is essentially the vicarious liability prong of the exemption.

The first determination to be made is that of “financial benefit.” Napster is an entirely free service, contains no advertising and has no source of revenue whatsoever.¹³⁹ Thus, Napster receives no financial benefit at all, much less a direct financial benefit. However, it is true that Napster appeared sufficiently appealing enough financially for BMG to want to settle. Granted, a main reason BMG wanted to join with Napster was Napster’s huge, already established user-base. But, if Napster’s user-base is so large because of the availability of infringing material, it could be considered as a direct financial benefit attributable to the infringing activity under the *Fonovisa* “draw for customers” standard.¹⁴⁰ However, the court’s adoption of the *Fonovisa* standard in interpreting the “financial benefit” element of this safe harbor would, again, effectively exclude the entities for whom the exemption was designed. Search engines such as Yahoo make money by selling advertising space on their sites. The rates charged by Yahoo for this space are determined by the average number of Yahoo users in any given period of time, and more users allows Yahoo to charge higher rates because more people will be exposed to the advertisers messages. Also, there is no doubt that users can access sites containing infringing material through Yahoo. Thus, if it could be shown that Yahoo users prefer Yahoo because it conducts more thorough searches than other engines and some of these users are searching Yahoo for infringing sites, then the “draw for customers” standard of *Fonovisa* will be met. However, search engines such as Yahoo were the very impetus for the safe harbor in the first place. Congress must have intended that the “financial benefit” be more direct than that adopted by the *Fonovisa* court.

This intention to require a more direct financial benefit is further evidenced by the legislative history, in which Congress specifically noted that financial gains made by a service provider running a lawful business would not be “directly attributable to the infringing activity” where the same payments are made by infringing users and noninfringing users alike.¹⁴¹ Furthermore, the report went on to state that one-time set-up fees and flat, periodic payments would not constitute “financial benefit directly attributable to the infringing

138. 17 U.S.C.A. § 512(d)(2).

139. It should be noted that the fact that Napster settled with BMG and will be charging a fee really has no bearing on this aspect of the requirement because this case only concerns Napster’s activities prior to the settlement.

140. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

141. H.R. Rep. No. 105-551, pt. 2 (1998).

activity.”¹⁴² This seems to suggest that even if Napster was a fee-based system they would still not be considered to have received a direct financial benefit from the infringing activity which would deny them the ability to take advantage of the safe harbor. Napster’s total lack of revenue, *a fortiori*, would require the same result.¹⁴³

The requirement that the service provider must not “receive a financial benefit directly attributable to the infringing activity” is predicated upon the provider’s “right and ability to control such activity.”¹⁴⁴ The question of whether “actual” or “legal” control is required may present significant problems for courts deciding the issue, and has been the subject of at least one scholarly debate.¹⁴⁵ An “actual control” control standard requires that there be “some continuing connection between the two [parties] in regard to the infringing activity,”¹⁴⁶ whereas “legal” control will be satisfied as long as a party is “in a position to police the infringing activity.”¹⁴⁷

In order to preserve the integrity of the safe harbor provisions, the courts should adopt an “actual” control standard when interpreting the DMCA.¹⁴⁸ Under the DMCA a service provider has no obligation to affirmatively seek out infringing conduct,¹⁴⁹ yet a “legal” control standard would remove a service provider from protection because he has the potential to police the infringing activity. It is quite unreasonable to statutorily grant service providers a right and then punish them for exercising that right. Furthermore, in order to qualify for any exemption, it is required that the service provider implement a procedure for terminating users upon notice of their infringing activities.¹⁵⁰ If the mere ability to terminate users establishes enough “control” to disqualify the service provider from the exemptions, it would create a Catch 22.¹⁵¹ By complying with a necessary requirement for protection under the safe harbor, a service provider would automatically fail an additional necessary requirement. Such a result would effectively preclude all service providers from taking advantage of the exemptions.

142. *Id.*

143. It should be noted that the fact that Napster, in its alliance with BMG, will become a fee-based system in the summer of 2001 is immaterial to the instant case.

144. 17 U.S.C.A. § 512(d)(2).

145. See generally Wright, *supra* note 62, at 1012.

146. Banff, Ltd. v. Limited, Inc., 869 F. Supp. 1103, 1110 (S.D.N.Y. 1994).

147. Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1163 (2d Cir. 1971).

148. See Wright, *supra* note 62, at 1026.

149. 17 U.S.C.A. § 512(m)(1).

150. 17 U.S.C.A. § 512(i)(1)(A).

151. See Defendant/Appellant Napster, Inc.’s Opening Brief, *supra* note 128, at 56.

In *Banff Limited, v. Limited, Inc.*,¹⁵² the court held that a parent corporation could not be held liable under an "actual" control standard merely because of its relationship with its infringing subsidiary. In so doing, the court stated, that "there must be indicia beyond the mere legal relationship showing that the [party] is actually involved with the decisions, processes, or personnel directly responsible for the infringing activity."¹⁵³ Thus, under an "actual" control standard it is necessary that the defendant have previously actually exercised control over the infringing activity itself.¹⁵⁴ This should not be construed to mean that by actually terminating infringing users Napster meets the "actual" control standard. Such an interpretation would create the same dilemma discussed above. Rather, it should be understood to mean that the relationship is such that, realistically, the infringer cannot act without the consent of the third party. Such is not the case with Napster and its users. Napster merely operates a service whereby users can locate specific files on the Internet. Napster cannot and does not specifically know or participate in the infringing activities of its users, nor is it obligated to monitor files before they are transferred.

Even if Napster wanted to require their consent or approval of files before transfer, it would not be economically feasible. Such a task would be impossible because the only information Napster has is the name of the songs. Simply because a file on Napster says it is a certain song does not actually mean the file contains that song. So, Napster would first have to determine if the song is copyrighted and then it would have to listen to every file under the named song in order to determine if the file actually contains that song. The cost of such an undertaking would be astronomical. At least one court has held that a finding of actual control may be outweighed by such prohibitive costs associated with the actual ability to supervise members.¹⁵⁵

If the "actual" control standard is adopted by the courts, it is possible that Napster will be found to not have the amount of control necessary to be disqualified from the exemption. However, this prong of the exemption is no doubt Napster's greatest weakness. The fact that the Napster system reads and categorizes all of the files on the users' hard drives may persuade a court to find that Napster does in fact have the "right and ability" to control the activities of its users even under an "actual" control standard. Nevertheless, such a finding will not automatically disqualify Napster from protection under the DMCA because the "right and ability to control" is dependent upon a finding

152. 869 F. Supp. 1103 (S.D.N.Y. 1994)

153. *Id.* at 1109.

154. See Wright, *supra* note 62, at 1015 (discussing *Banff*, 869 F. Supp. 1103).

155. See *Artists Music, Inc. v. Reed Publ'n, Inc.*, No. 93 Civ. 3428 (JFK) 1994 U.S. Dist. LEXIS 6395 (S.D.N.Y. May 17, 1994).

that Napster received a direct financial benefit from the infringing activity.¹⁵⁶

VI. THE PROBLEM SHOULD BE LEFT TO CONGRESS

Although not the intention of Congress, from the analysis detailed above it seems that the DMCA safe harbor for information location tools, as written, allows Napster and its progeny to avoid liability for copyright infringement. The complexity of the technology involved and the high risk of potentially dangerous side effects that might occur as a result of the interpretation a court would need to adopt to preclude Napster from taking advantage of the DMCA exception, makes a Napster victory even more plausible. By declining in its preliminary injunction opinion to discuss in any detail Napster's probability of exemption under the DMCA safe harbors, the Ninth Circuit has shown its concern for problems that might arise if the courts are not careful in answering the issues involved.

For better or for worse, the courts should leave it to Congress to remedy the problem so as not to contort the DMCA in such a way that could cause severe unforeseen problems. Of course, exactly how Congress is supposed to do this without alienating those search engines and technologies without which the Internet would not function creates an entirely new set of problems. There is no doubt that, absent the DMCA safe harbor, Napster would undoubtedly be guilty of copyright infringement. There is also no doubt that the Internet needs search engines to function effectively. Thus, we have one system providing a service that is necessary and another providing a service which our laws deem illegal. But how do you draft legislation that can fairly and effectively discriminate between these two systems when they are functionally identical?

Regulation of the uses of particular systems is generally the scheme we adopt when faced with problems like the one at hand. In fact, it is precisely how we regulate traditional swap meets and it is what the DMCA was intended to do. With the traditional swap meet we do simply what the court in *Fonovisa* did, and in so regulating nothing else in the world is affected. Some swap meets are legitimate and others are shut down, but the world goes on because there is no overlap between the swap meet and the essential elements necessary to the proper function of the material world.

Unfortunately, this is not true for search engines in cyberworld. The problem is found in the very nature of search engines. Search engines simply process a word or phrase provided by the user and list

156. 17 U.S.C.A. § 512(d)(2) (West Supp. 2001).

the Internet sites containing this word or phrase. Because a search engine is nothing more than a protocol, a program, it cannot tell the difference between infringing and noninfringing sites. Of course, a program can be designed to refuse to search for specific words, but such filters have a limited application. Take, for example, a music pirate site called "music man." Since a program can only recognize terms and not site content, there is no way to filter out a seemingly legitimate site such as "music man" without using an overly broad filter term such as "music." If the program has a filter that prevents it from searching for all sites with the word "music" in them, it would help prevent copyright infringement but it would also deny access to thousands of other legitimate sites. Thus, it is inevitable that all search engines are going to provide links to infringing sites.

It is also true that search engines are essential to the proper functioning of the Internet, a fact acknowledged by Congress when it created the safe harbor for information location tools. The problem, then, should be obvious. All search engines will have links to infringing sites. The only way to prevent this is by using overly broad filters. However, using overly broad filters severely limits the efficiency of search engines. Because search engines are necessary to the proper functioning of the Internet, limiting the efficiency of search engines limits the functional capability of the Internet. It is imperative that Congress consider such consequences when attempting to plug the loopholes in the DMCA.

Considering the complexity of the problems detailed above, it seems that Congress will have to think long and hard in order to find a solution to this problem. One answer may be to add a provision to the DMCA which allows the court to use some degree of discretion in determining whether a search engine falls under the safe harbor for information location tools. However, allowing judicial discretion in an area where most judges have little or no knowledge or experience may be a dangerous course of action. Judges faced with problems, the technical aspects of which are beyond their grasp, often end up making poor decisions. Inconsistency among the courts could create a quagmire of legal problems more severe than the ones with which we are now faced.

Perhaps a better solution would be for Congress to expressly define certain terms in the exemption for information location tools in a way that does not alienate those deemed worthy of coverage. For example, the exemption applies to "providers . . . linking users to an online location,"¹⁵⁷ but does not define what constitutes an "online location." Every machine connected to the Internet must have an address to which

157. 17 U.S.C.A. § 512(d).

the information sought can be directed, therefore, every computer on the Internet is an online location. These addresses, known as Internet Protocol Numbers, are present on every computer on the Internet. However, in order to have an actual website, the site operator must have a registered "domain name," e.g., "www.excite.com." Thus, Congress could define the term as being limited only to those locations which have a registered "domain name." This would definitely eliminate services such as Napster from coverage because individuals generally only have an Internet Protocol Address and not a registered domain name. Such a limitation would still allow search engines like Yahoo to take advantage of the safe harbor because Yahoo only searches for sites with registered domain names. In fact, all of the search engines that Congress was intending to protect only search for sites with domain names, they do not search for individual users.

Such an approach would have the added benefit of making it easier to locate infringers. When an individual user signs off it is impossible to trace him, but domain names must be registered and the sites are always online. Also, it may be possible to regulate the intended use of the site at the register stage, thereby stopping the infringement before it starts. Of course there are also disadvantages to not protecting the point-to-point communication business model created by Napster. The Napster model has tremendous potential and innumerable legitimate uses. Most importantly, the point-to-point model helps alleviate the amount of traffic on traditional Internet routing systems which are becoming overcrowded as more people gain access to the Internet. It would not be wise to alienate what could be the future of online communication.

VII. CONCLUSION

Napster should be able to take advantage of the safe harbor for information location tools as currently written in the DMCA. And, regardless of what Congress ultimately decides to do to remedy the problems with the DMCA safe harbors, it is important that the remedy be fashioned by Congress and not the courts. For the court to find Napster ineligible for the safe harbor, it will have to interpret the DMCA in such a way that it will create problems it cannot comprehend.

Congress definitely has a tough road ahead, but it has the benefit of inexhaustible resources from which it may, after careful consideration, fashion a remedy. It is after all the job of Congress, not the courts, to make the laws, and Congressional oversight of a loophole does not impute that power to the courts.

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